

# DOCKET SECTION

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0000

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U.S. DEPARTMENT OF POSTAL SERVICE  
WASHINGTON, D.C. 20268-0000


POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF AMERICAN PUBLIC POWER ASSOCIATION  
WITNESS EUGENE E. THREADGILL TO INTERROGATORIES  
OF UNITED STATES POSTAL SERVICE  
(USPS/APPA-T1-1 through 4)

American Public Power Association (APPA) hereby provides  
Responses to the above interrogatories filed on January 28, 1998.

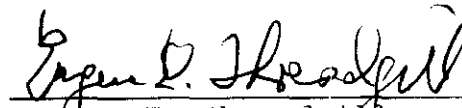
Respectfully submitted,

  
Eugene E. Threadgill  
Suite 200  
1493 Chain Bridge Rd.  
McLean, VA 22101  
(703) 734-1918  
Counsel for APPA

February 10, 1998

## CERTIFICATE OF SERVICE

I hereby certify that I have, this 10th day of February,  
served this document, by First-Class mail, upon all participants in  
this proceeding.

  
Eugene E. Threadgill

AMERICAN PUBLIC POWER ASSOCIATION WITNESS EUGENE E. THREADGILL  
ANSWERS TO USPS INTERROGATORIES USPS/APPA-T1-1 THROUGH 4

USPS/APPA-T1-1. On page 9 (lines 8-12) of your testimony, you state, "in Mail Reclassification, Docket No. MC95-1, the Commission compounded the discriminatory single-piece rates by accepting the USPS proposal to terminate the 17 cent 3-digit presort rate category, the 16.3 cent 5-digit presort rate category, and the 16 cent carrier route presort rate category..."

- a. Please confirm that as a result of Docket No. MC95-1, the 3-digit presort, prebarcoded rate category was maintained and the rate was lowered from 17 cents to 15.9 cents. If not confirmed, please explain.
- b. Please confirm that as a result of Docket No. MC95-1, the 5-digit presort, prebarcoded rate category was maintained and the rate was lowered from 16.3 cents to 14.3 cents. If not confirmed, please explain.
- c. Please confirm that as a result of Docket No. MC95-1, the carrier route rate category was maintained and the rate was reduced from 16 cents to 14 cents. If not confirmed, please explain.

RESPONSE:

- a. Not confirmed. The 3-digit prebarcoded rate category was not maintained; it was terminated. The First-Class subclasses, Letters and Cards, were each subdivided into two new rate categories, Regular and Automated, with more detailed and expanded eligibility conditions for Automation than for the previous prebarcoded categories. The 17 cent 3-digit prebarcoded category was replaced by an Automated 3-digit rate of 15.9 cents.
- b. Not confirmed; see answer above. The 5-digit prebarcoded category, with a rate of 16.3 cents, was terminated. An Automated 5-digit category, with far different eligibility conditions, was established with a rate of 14.3 cents.
- c. Not confirmed. The carrier route presort rate category, which had a rate of 16 cents, was terminated. An Automated carrier route category with a 14 cent rate was created, with strict automation conditions, and also with access limited to designated destination post offices.

USPS/APPA-T1-2. On page 19 (lines 9-12) you set forth your specific rate proposals of 18 cents for a single-piece post card and 15 cents for a nonautomated presort card. On page 1, lines 1-4, of your testimony, you also state that your testimony opposes all of the post card rate increases proposed by the Postal Service and also requests reductions in all post card rates.

- a. Please confirm that the only specific rate reductions that you have proposed are the two cited in the preamble to this question (18 cents for single-piece compared to its current 20 cents, and 15 cents for non-automated presort compared to its current 18 cents). If not confirmed, please explain fully.
- b. Please quantify the Test Year 1998 card revenues that result from the proposal involving a 18 single-piece rate, a 15 cent nonautomated presort rate, and all other card rates remaining at their current levels.
- c. Please calculate the difference between Test Year revenues under Postal Service's proposal and the Test Year revenues from part (b) above. How would you propose that the Postal Service make up for these lost revenues?
- d. If your 15 cent nonautomated pressort rate was adopted, it would make this rate less than the current rate for basic automation (16.6 cents) and the current rate for 3-digit presort, prebarcoded cards (15.9 cents). Please comment on this relationship.
- e. According to Exhibit USPS-30B (Revised 9-19-97), the Postal Service proposal results in a Test Year cost coverage of 200 percent for the letters subclass and a cost coverage of 184 percent for the cards subclass. How would these cost coverages change under the proposal described in part (b)? Please explain.
- f. On page 15, lines 14-15, of your testimony, you state that, "the revenue impact of these recommended reductions in across-the-board post card rates should be negligible." In light of this statement (i) please describe specifically what recommended reductions you are referring to, and (ii) please quantify negligible.

RESPONSE:

a. Confirmed. It was and is my view that any reduction in the single-piece and non-automated presort rates should be accompanied by some reduction in the Automation rates, in order to attain a compatible rate structure for the entire Card subclass. However I depend upon the Commission to address such an issue.

b. As stated at page 15, line 18, of my testimony, USPS witness O'Hara has projected that the proposed one cent increase in card rates would generate an increase in revenue of \$29,136,000, to a projected total of \$1,088,979,000. If the present rates are reduced by two cents, and there is no change in the demand volume, the projected Test Year revenue would be reduced by \$87,408,000 (3 x \$29,136,000) for a total Test Year revenue of \$1,001,571,000. However, given the relatively high demand price elasticity for cards, any reduction in price will stimulate demand, so the Test Year revenue should not drop by \$87,408,000, if it drops at all.

c. See my answer to part (b) above. I would expect the Commission to calculate whether there would be any reduction in revenue which would have to be recovered from any other classes or kinds of services. As other parties have noted, recent reports on the continued profitability of the USPS suggest that USPS may have overstated its projected Test Year Revenue requirements in its filing. If that is true, then the USPS has an obligation to offer the Commission the opportunity to mitigate some of the proposed rate increases.

d. See my answer to part (a).

e. In my testimony at page 14, lines 9-14, I refer to the cost coverages reported in Exhibit USPS-30B, p.43. I have not received and was unaware that a revision to that exhibit had been filed. Calculation of cost coverage requires a complex projection of volumes, costs and revenues, a projection that I am not equipped to calculate. As I point out at lines 14-18 of page 14, given the much more limited value and much greater demand price elasticity of cards, the cost coverage for cards should be substantially less than that for letters.

f. See my answers to parts (a) and (b).

USPS/APPA-T1-3. On page 9 (lines 15-17) of your testimony, you state that, "Most presort post card mailers experienced cost increases in their postal costs [as a result of Docket No. MC95-1] which other mailers did not incur. Which other mailers and what costs are you referring to? Please explain.

RESPONSE:

As stated in the sentence preceding the one quoted above, the largest cost increase resulting from reclassification fell on those mailers which had been using the 16 cent post card carrier route presort rate category, which was terminated. Those mailers incurred a 2 cent per piece increase when they shifted to the 18 cent Basic Presort. However, other post card mailers, which had been using the 17 cent 3-digit presort category, or the 16.3 cent 5-digit presort category, experienced some increase in postal costs when those categories were terminated and replaced by the Basic Presort category with a rate of 18 cents. As explained elsewhere, the standard post card bill was not eligible for conversion to meet Automation standards. In order to achieve Automation eligibility, the billing post card, with the verticle stub, had to be replaced by a post card with a horizontal stub, which could be barcoded. Such a shift in bill preparation involved costs, which many post card billers were not willing to incur.

Most users of letters did not experience the kind of increase in postal costs incurred by post card users, because letters could easily be converted to meet Automation conditions, which allowed users of letter mail to achieve reduced postal costs.

USPS/APPA-T1-4. On page 10 (lines 14-18) of your testimony you state that, "The demand price elasticity of cards is so great that the proposed increase of one cent could bring about a significant decrease in demand and a net loss in post card revenue..." On page 11, line 24, you cite Postal Service testimony reporting own-price elasticity for cards as  $-0.944$ . Is it correct that an elasticity of this magnitude will increase rather than decrease revenue when the rate increase increases one cent? Please explain.

RESPONSE:

I do not claim to have any expertise in current econometrics which employs elasticities and other factors to make economic projections. However, it is my impression that, if there were no external factors creating an increase in the demand for postal communication services (such as growth of population), with a demand price elasticity of nearly  $-1.00$ , any increase in price for a service would result in a substantial reduction in demand for the service. Although I cannot quantify the net result of an increase in a rate and a decrease in demand upon the resulting revenue, it would seem to be undeniable that, with a letter elasticity of only  $-.232$ , a one cent increase in letter rates would generate a greater percentage increase in revenues than a one cent increase in a category with an elasticity of  $-0.944$ .

DECLARATION

I, Eugene E. Threadgil, declare under penalty of perjury, that the foregoing answers to interrogatories USPS/APPA-T1-1-4 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed July 5, 1998

Eugene E. Threadgil